

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 TRSE-00 IO-10 COME-00 CIAE-00

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R 021851Z MAY 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0811

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E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC FORECASTING

REF: A) STATE 95313 B) LONDON 1653

SUMMARY: EMBASSY EXPECTS THAT INDUSTRIAL PRODUCTION INDEX IN U.K. WILL CONTINUE GRADUAL DECLINE THROUGHOUT 1975, THOUGH IT MAY LEVEL OFF IN FOURTH QUARTER. FIRST HALF 1976 MAY SEE SOME UPTURN. END SUMMARY.

1. BASE YEAR OF UK INDUSTRIAL PRODUCTION INDEX IS 1970. INDEX NUMBER FOR ALL INDUSTRIES FOR 1973 IS 109.9 AND FOR 1974 IS 106.4. FOR MANUFACTURING INDUSTRIES, NUMBERS ARE 110.5 AND 107.9 RESPECTIVELY.

2. QUARTERLY INDEX NUMBERS IN 1974 WERE(MANUFACTURING INDEX IN PARENTHESES):

1974: I	103.5 (105.7)
1974: II	107.8 (109.3)
1974: III	108.6 (110.2)
1974: IV	105.4 (106.2)

THE FIRST QUARTER WAS AFFECTED BY THE 3-DAY WEEK.

3. FIRST QUARTER 1975 INDEX NUMBER NOT AVAILABLE YET. NUMBERS FOR FIRST TWO MONTHS ARE: (MANUFACTURING IN PARENTHESES):

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JANUARY 105.2 (107.2)

FEBRUARY 105.3 (106.9)

4. OUR ESTIMATE THROUGH MID 1976 IS AS FOLLOWS (MANUFACTURING INDEX IN PARENTHESES):

(1975:I	105 (106.0)
1975:II	104.5 (105.0)
1975:III	104.0 (104.7)
1975:IV	104.1 (105.0)
1976: I	106.0 (106.5)
1976:II	107.0 (108.0)

5. KEY ASSUMPTIONS BEHIND THIS FORECAST ARE 1) CONTINUATION OF WAGE ACCELERATION AND HIGH RATE OF RETAIL PRICE INCREASE WHICH WILL IMPEL UK GOVERNMENT TO BRING IN "TOUGH" BUDGET IN AUTUMN 1975 CUTTING PUBLIC EXPENDITURE. THUS DEMAND REDUCED FROM THIS COMPONENT OF EXPENDITURE AND PUBLIC SECTOR BORROWING REQUIREMENT REDUCED TAKING PRESSURE OFF MONEY SUPPLY; 2) RELATIVELY STABLE (I.E., FLAT) CONSUMER SPENDING AS WAGES CONTINUE AHEAD OF PRICES, THUS BOOSTING THIS DEMAND COMPONENT; 3) DEPRECIATION OF STERLING TO KEEP U.K. EXPORTS SOMEWHAT COMPETITIVE AND BOOST THIS COMPONENT; 4) INCREASE IN HOUSING SECTOR ACTIVITY (CONSTRUCTION) TO SOMEWHAT OFFSET FALL IN MANUFACTURING ACTIVITY.

6. THIS IS ABOUT THE SAME TREND AS WE ESTIMATED IN OUR PREVIOUS EFFORT (SEE REF B). THE NUMBERS ARE A BIT LOWER THAN OUR FEBRUARY ESTIMATE BECAUSE THE WHOLE DARN INDEX WAS REVISED DOWNWARD SOON AFTER WE SUBMITTED OUR PREVIOUS ESTIMATE, SOME NUMBERS BEING REVISED DOWNWARD BY A WHOLE PERCENTAGE POINT. THUS WE START FROM A LOWER BASE THIS TIME. WE EXPECT THE TREND WILL NOT BE FAR FROM OUR ESTIMATE, BUT THE NUMBERS COULD BE REVISED AGAIN.

RICHARDSON

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Message Attributes

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Draft Date: 02 MAY 1975
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Disposition Action: RELEASED
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Disposition Authority: ShawDG
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Disposition History: n/a
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Handling Restrictions: n/a
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Margaret P. Grafeld
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